Business models in project business

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Abstract

Recent management and business research has demonstrated the importance of business models for value creation and company performance. So far, extant research on business models has not investigated the particular requirements, characteristics and combinations of business models in project business. This paper seeks to fill this void. The paper reports on findings from an exploratory multiple case study comprising six project-based firms operating in such industries as shipbuilding, telecom, and power systems. 19 business models were identified and compared through a framework utilizing elements of business models. The identified business models are further grouped into three categories based on the organizational entity. The paper points out the diversity of business models in project business and their inclination to span organizational levels. The results demonstrate the importance of addressing the combination of business models across organizational boundaries.

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1. Introduction

Companies initiate and participate in projects to improve their innovative capacity, to carry out system-wide change efforts, and to enhance their adaptive capability. Recent research has indicated that many projects serve as strategic arenas to develop new capabilities that can be reused in future business (Davies and Hobday, 2005). A parallel development trajectory concerns the role of projects in accommodating complex business transactions. Such transactions have been common in the construction industry for several decades, and have also become significant in a range of other industries and sectors so that; technology-based and service-providing firms increasingly organize their operational activities in different kinds of projects and customer delivery projects (Morris and Hough, 1987; Flyvbjerg et al., 2003; Artto and Wikström, 2005; Davies, 2004; Hobday, 2000). In addition, firms operating in creative industries such as entertainment and film-making, and in large sport events industries such as the Olympic Games (Grün, 2004) organize much of their business transactions in multi-party projects (DeFillippi and Arthur, 1998; Sydow and Staber, 2002; Lundin and Norbäck, 2009) and many firms are project-based in terms of integrating their diverse and specialized intellectual resources in innovation and R&D projects (Gann and Salter, 2000; Keegan and Turner, 2002; Lindkvist, 2004) producing complex project landscapes which are controlled by means of portfolio and program management (Pellegrinelli, 1997; Artto and Dietrich, 2004). At the same time research has documented the salient features of project business,
the limitations of achieving long-term benefits and manage-
ability through focusing only on managing projects and related
firms on a temporary basis (Neu and Brown, 2005). Several
authors have argued for the need for new perspectives on how
projects, firms and their networks are developed and managed
in project business. They have in common that the strategic and
long-term view on project business should be elaborated, and
that the specific challenges of project business should be taken
into account by applying concepts from the strategic literatures.
The focus of this paper lies in addressing the meaning and
implications that the strategic concept of a “business model” has
for the understanding of project business, which include not
only firms delivering complex projects and using their results,
but also other actors financing, insuring, regulating, brokering
or moderating complex project transactions.

Project-based firms are found in a wide range of industries,
such as consulting and professional services, cultural and sports
industries, and complex products and systems (Sydow et al.,
2004). The majority of project-based firms engage in tailormade
deliveries and extend their offerings beyond traditional
project deliveries by integrating maintenance, spare parts and
services, management contracts, and even partial ownerships in
multi-actor-enterprises running the operations of a complex
system, leading to significant scope and responsibility changes
and concomitantly increasing complex projects (Arto et al.,
2008; Wikström et al., 2009). This typically requires cooper-
ation with other partners, suppliers, customers, and in that
respect project-based firms need to cross organizational
boundaries and knowledge bases. An important consequence
is therefore the complex and difficult cooperation and
coordination processes, involving many technologies and
individual organizations in the manufacture and delivery
of complex systems, making systems integration a core capability
in contemporary project-based firms (Liinamaa and Wikström,
2009; Söderlund, 2005).

We suggest that a project represents a ‘delivery system’ of a
firm’s internal development (Keegan and Turner, 2002) and/or
external business activities (Cova et al., 2002; Hobday, 1998). An
individual project may cross the boundaries of two firms (e.g.
designing of products and services jointly by the project
contractor firm and its client (Hobday, 1998), or several firms,
such as alliances (Windeler and Sydow, 2001) or coalitions
(Winch, 2006) between several firms; projects as multi-
organization enterprises (Grün, 2004); project networks
(HELLGREN and STERNBERG, 1995); or project ecologies (GRABHER,
2002). The need for adaption with other firms and other projects
is emphasized due to requirement from changing business environ-
ments and dynamism in network constellations (HELLSTRÖM
and WIKSTRÖM, 2005).

Accordingly, ‘project business’ becomes an important part
of many project-based industries and a key activity for an
increasing number of firms. Project business differs from
other types of business, primarily due to its specific relational
context, time-limitedness, value creation properties, type of
complexity and its high degree of uncertainty and limited
possibilities for standardization (HELLSTRÖM, 2005). However,
individual firms navigate differently in this competitive
landscape through diverse strategies and business models,
combinations of business models with other firms in the same
network. Even entire networks of firms may decide to combine
their resources to effectuate a particular type of business model.
In that respect, business models can play an important part in the
firm’s repertoire of responses to the specific nature of project
business — its context and content. What seems critical is
therefore to explore business models operating in project
business and how they operate within single or multiple firms,
within single projects, and business networks. This paper
demonstrates that business models in project-based industries
are tied together on different levels, both inter- and intra-
organizational: the project level, the firm level, or the level of
entire networks of firms and/or projects. In that respect, this
paper seeks to contribute to the literature on business models by
particularly showing how they operate in project-based
industries.

This paper reports on findings from an empirical study of six
project-based firms operating in diverse project-based industries
as telecom, shipbuilding, and power systems. The starting point
for our research was observations that the variety of business
models and combinations of business models showed a
pluralism that has not received large attention in the research
on business models. To make sense of this initial observation,
we address two primary research questions:

RQ1  What are the characteristics of the various types of
business models in project business?

RQ2  In what kinds of organizational entities do such
business models coexist?

RQ1 looks at the existence of various business models and
their main characteristics that might even be hidden or
embedded in the formal or informal practices, such as activities
and approaches in networked organizations among multiple
firms and projects. RQ2 explores the existence or co-existence
of such business models in different organizational entities.
Such models could be related to separate organizational bodies,
or they may partly or fully coexist or overlap in same
organizational entities. In addition to the organizational
coverage issue, the business models may be interlinked, e.g.
by being collaborative or competitive, which would indicate
that there is room for alignment or collisions, respectively.

The paper is structured in the following way. First, we
discuss the concept of business models — how it relates to
project business and its central characteristics and challenges.
Second, we empirically identify and analyze the business
models emerging from our exploratory multiple case study.
Finally, we discuss the practical and theoretical implications of
our findings.

2. Business models

The concept of business models has emerged from previous
research in the field of strategy from concepts as business idea
and theory of business (Normann, 1975, 2001; Porter, 1998;
Drucker, 1979, 1994). Research on the concept of theory of
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